

Definitions of Terms Used in This Handbook

Additional Security	<u>Additional security</u> is collateral in excess of that needed to fully secure the loan.
Allonge	<u>Allonge</u> is an attachment or an addendum to a note.
Applicant	For guaranteed loans, the lender requesting a guarantee is the <u>applicant</u> . The party applying to the lender for a loan will be considered the loan applicant.
Approval Official	An <u>approval official</u> is the FSA official authorized to approve a loan or servicing request. The official is determined depending on the dollar limitations and other conditions applicable to a particular action.
Aquaculture	<u>Aquaculture</u> is the husbandry of aquatic organisms in a controlled or selected environment. An aquatic organism is any fish, amphibian, reptile, or aquatic plant. An aquaculture operation is considered to be a farm only if it is conducted on the grounds which the loan applicant owns, leases, or has an exclusive right to use. An exclusive right to use must be evidenced by a permit issued to the loan applicant and the permit must specifically identify the waters available to be used by the loan applicant only.
Assignment of Guaranteed Portion	<u>Assignment of guaranteed portion</u> is the process by which the lender transfers the right to receive payments or income on the guaranteed loan to another party, usually in return for payment in the amount of the loan's guaranteed principal. The lender retains the unguaranteed portion in its portfolio and receives a fee from the purchaser or assignee to service the loan, and receive and remit payments according to a written assignment agreement. This assignment can be reassigned or sold multiple times.

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Definitions of Terms Used in This Handbook (Continued)

Average Farm Customers

Average farm customers are those conventional farm borrowers who are required to pledge their crops, livestock, and other chattel and real estate security for the loan. This does not include high-risk farmers with limited security and management ability who are generally charged a higher interest rate by conventional agricultural lenders. Also, this does not include low-risk farm customers who obtain financing on a secured or unsecured basis, who have as collateral items such as savings accounts, time deposits, certificates of deposit, stocks and bonds, and life insurance which they are able to pledge for the loan.

Basic Security

Basic security is all farm machinery, equipment, vehicles, foundation and breeding livestock herds and flocks, including replacements, and real estate which serves as security for a loan guaranteed by the Agency. With respect to livestock herds and flocks, animals that are sold as a result of the normal culling process are basic security unless the borrower has replacements that will keep numbers and production up to planned levels. However, if a borrower plans to make a significant reduction in his or her basic livestock herd or flocks, the animals that are sold in making this reduction will be considered basic security.

Beginning Farmer or Rancher

A beginning farmer or rancher is an individual or entity who:

- C** meets the loan eligibility requirements for OL or FO assistance, as applicable
- C** has not operated a farm or ranch, or who has operated a farm or ranch for not more than 10 years; this requirement applies to all members of an entity
- C** will materially and substantially participate in the operation of the farm or ranch

Notes: In the case of a loan made to an individual, individually or with the immediate family, material and substantial participation requires that the individual provide substantial day-to-day labor and management of the farm or ranch, consistent with the practices in the county or State where the farm is located.

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Definitions of Terms Used in This Handbook (Continued)

Beginning
Farmer or
Rancher
(Continued)

In the case of a loan made to an entity, all members must materially and substantially participate in the operation of the farm or ranch. Material and substantial participation requires that the individual provide some amount of the management, or labor and management necessary for day-to-day activities, such that if the individual did not provide these inputs, operation of the farm or ranch would be seriously impaired.

C agrees to participate in any loan assessment, and financial management programs required by Agency regulations

C*--except for applicants for operating loans, does not own real farm or ranch--* property or who, directly or through interests in family farm entities owns real farm or ranch property, the aggregate acreage of which does not exceed 25 percent of the average farm or ranch acreage of the farms or ranches in the county where the property is located

Note: If the farm is located in more than one county, the average farm acreage of the county where the loan applicant's residence is located will be used in the calculation. If the loan applicant's residence is not located on the farm or if the loan applicant is an entity, the average farm acreage of the county where the major portion of the farm is located will be used. The average county farm or ranch acreage will be determined from the most recent Census of Agriculture developed by the U.S. Department of Commerce, Bureau of the Census or USDA.

C demonstrates that the available resources of the loan applicant and spouse (if any) are not sufficient to enable the loan applicant to enter or continue farming or ranching on a viable scale

C in the case of an entity:

C all the members are related by blood or marriage

C all the stockholders in a corporation are qualified beginning farmers or ranchers.

Borrower

A borrower is an individual or entity which has outstanding obligations to the lender under any Agency loan program. A borrower includes all parties liable for Agency debt, including collection-only borrowers, except those whose total loan and accounts have been voluntarily or involuntarily foreclosed or liquidated, or who have been discharged of all Agency debt.

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Definitions of Terms Used in This Handbook (Continued)

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**Cash Flow
Budget**

Cash flow budget is a projection listing all anticipated cash inflows (including all farm income, nonfarm income and all loan advances) and all cash outflows (including all farm and nonfarm debt service and other expenses) to be incurred by the borrower during the period of the budget. Cash flow budgets for loans under \$50,000 do not require income and expenses itemized by categories. A cash flow budget may be completed either for a 12 month period, a typical production cycle or the life of the loan, as appropriate. It may also be prepared with a breakdown of cash inflows and outflows for each month of the review period and includes the expected outstanding operating credit balance for the end of each month. The latter type is referred to as a “monthly cash flow budget”.

Collateral

Collateral is property pledged as security for a loan to ensure repayment of an obligation.

**Conditional
Commitment**

A conditional commitment is the Agency’s commitment to the lender that the material it has submitted is approved subject to the completion of all conditions and requirements contained therein.

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Definitions of Terms Used in This Handbook (Continued)

Consolidation	<u>Consolidation</u> is the combination of outstanding principal and interest balance of two or more OL loans.
Controlled	<u>Controlled</u> is when a director or employee has more than a 50 percent ownership in the entity or, the director or employee, together with relatives of the director or employee, have more than a 50 percent ownership.
Cooperative	A <u>cooperative</u> is an entity which has farming as its purpose and whose members have agreed to share the profits of the farming enterprise. The entity must be recognized as a farm cooperative by the laws of the State in which the entity will operate a farm.
Cosigner	A <u>cosigner</u> is a party who joins in the execution of a promissory note to assure its repayment. The cosigner becomes jointly and severally liable to comply with the terms of the note. In the case of an entity loan applicant, the cosigner cannot be a member, partner, joint operator, or stockholder of the entity.
County Average Yield	The <u>county average yield</u> is the historical average yield for a commodity in a particular political subdivision, as determined or published by a government entity or other recognized source.
Debt Writedown	A <u>debt writedown</u> is to reduce the amount of the borrower's debt to that amount that is determined to be collectible based on an analysis of the security value and the borrower's ability to pay.
Deferral	A <u>deferral</u> is a postponement of the payment of interest or principal or both. Principal may be deferred in whole or in part, interest may only be partially deferred.

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Definitions of Terms Used in This Handbook (Continued)

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Direct Loan A direct loan is a loan serviced by the Agency as lender.

Due Diligence Due diligence is the process of evaluating real estate as part of a financing application to determine the presence of contamination from release of hazardous substances, petroleum products, or other environmental hazards and determining what effect, if any, the contamination has on the regulatory status or security value of the property.

Entities Entities are **cooperatives, corporations, partnerships or joint operations**, such as limited liability companies.

Family Farm A family farm is a farm which:

- C** produces agricultural commodities for sale in sufficient quantities so that it is recognized in the community as a farm rather than a rural residence
 - C** provides enough agricultural income by itself, including rented land, or together with any other dependable income, to enable the borrower to:
 - C** pay necessary family living and operating expenses
 - C** maintain essential chattel and real property
 - C** pay debts
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Definitions of Terms Used in This Handbook (Continued)

Family Farm (Continued)

- C** is managed by:
 - C** the borrower when a loan is made to an individual
 - C** the members, stockholders, partners, or joint operators responsible for operating the farm when a loan is made to a cooperative, corporation, partnership, or joint operation
 - C** has a substantial amount of the labor requirements for the farm and nonfarm enterprise provided by:
 - C** the borrower's immediate family
 - C** the members, stockholders, partners, or joint operators responsible for operating the farm when a loan is made to a cooperative, corporation, partnership, or joint operation
 - C** uses or may use a reasonable amount of full-time hired labor and seasonal labor during peak loan periods.
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Family Living Expenses

Family living expenses are any withdrawals from income to provide for needs of family members.

Family Members

Family members are the immediate members of the family residing in the same household with the individual borrower, or, in the case of an entity, with the operator.

Farm

A farm is a tract or tracts of land, improvements, and other appurtenances considered to be farm property which is used or will be used in the production of crops, livestock, and aquaculture products for sale in sufficient quantities so that the property is recognized as a farm rather than a rural residence. The term "farm" also includes any such land, improvements and facilities used in a nonfarm enterprise. It may also include a residence which, although physically separate from the farm acreage, is ordinarily treated as part of the farm in the local community.

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Definitions of Terms Used in This Handbook (Continued)

Feasible Plan	<p>*--A <u>plan</u> is <u>feasible</u> if the cash flow budgets indicate sufficient cash inflows to pay all cash outflows to be incurred each year by the borrower during the term of the loan. When the term of the loan will exceed 1 production cycle and the planned cash flow budget is atypical; for example, including cash carryover, inventory carryover, new operations, carryover debt, atypical asset purchases, or significant operational changes; a typical cash flow budget must also be prepared. When the term of the loan or the servicing action will not exceed 1 year, such as an interest assistance renewal or an advance on a line of credit, only a feasible plan for the next production cycle is required.--*</p>
Financially Viable Operation	<p>A <u>financially viable operation</u> is one which, with Agency assistance, is projected to improve its financial condition over a period of time to the point that the operator can obtain commercial credit without further Agency direct or guaranteed assistance. A borrower that will meet the Agency classification of “commercial,” as defined in Agency Instruction 2006-W, available in any Agency office, will be considered to be financially viable. Such an operation must generate sufficient income to:</p> <ul style="list-style-type: none"> C meet annual operating expenses and debt payments as they become due C meet basic family living expenses to the extent they are not met by dependable nonfarm income C provide for replacement of capital items C provide for long-term financial growth.
Fish	<p>A <u>fish</u> is any aquatic, gilled animal commonly known as “fish” as well as mollusks, or crustaceans (or other invertebrates) produced under controlled conditions (that is, feeding, tending, harvesting, and such other activities as are necessary to properly raise and market the products) in ponds, lakes, streams, artificial enclosures, or similar holding areas.</p>
Fixture	<p>A <u>fixture</u> is an item of personal property attached to real estate in such a way that it cannot be removed without defacing or dismantling the structure, or substantially damaging the structure itself.</p>

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Definitions of Terms Used in This Handbook (Continued)

FSA	<u>FSA</u> is the United States of America, acting through the Farm Service Agency, an agency of the United States Department of Agriculture. References to the National Office, Finance Office, State Office, County Office, District Office, SED, DD, local credit officer, or other FSA offices or officials should be read as prefaced by "FSA."
Graduation	<u>Graduation</u> is the Agency's determination that a borrower of a direct loan is financially stable enough to refinance that loan with a commercial lender with or without a guarantee.
Guaranteed Loan	A <u>guaranteed loan</u> is a loan made and serviced by a lender for which the Agency has entered into a Lenders Agreement and for which the Agency has issued a Loan Note Guarantee. This term also includes lines of credit except where otherwise indicated.
Hazard Insurance	<u>Hazard insurance</u> includes fire, windstorm, lightning, hail, explosion, riot, civil commotion, aircraft, vehicles, smoke, builder's risk, public liability, property damage, flood or mudslide, workers compensation, or any similar insurance that is available and needed to protect the security, or that is required by law.
Holder	A <u>holder</u> is the person or organization other than the lender who holds all or a part of the guaranteed portion of an Agency guaranteed loan but who has no servicing responsibilities. When the lender assigns a part of the guaranteed loan to an assignee by way of execution of an assignment form, the assignee becomes a holder.
In-House Expenses	<u>In-house expenses</u> are expenses associated with credit management and loan servicing by the lender and lender's contractor. In-house expenses include, but are not limited to: employee salaries, staff lawyers, travel, supplies, and overhead.

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Definitions of Terms Used in This Handbook (Continued)

Interest Assistance Agreement The interest assistance agreement is the signed agreement between the Agency and the lender setting forth the terms and conditions of the interest assistance.

Interest Assistance Anniversary Date The interest assistance anniversary date is the date on which interest assistance reviews and claims will be effective. This date is established by the lender. Once established, it will not change unless the loan is restructured.

Interest Assistance Review The interest assistance review is the yearly review process that includes an analysis of the borrower or applicant's farming operation and need for continued interest assistance, completion of the needs test and request for continuation of interest assistance.

Joint Operation A joint operation is individuals that have agreed to operate a farm or farms together as a business unit. The real and personal property may be owned separately or jointly by the individuals. Joint operations include limited *--liability companies having more than one member. A revocable trust may be a joint operation if it is a farming operation in which 2 or more farmers work together sharing equally or unequally land, labor, equipment, expenses, and income.--*

Land Development Land development is items such as terracing, clearing, leveling, fencing, drainage and irrigation systems, ponds, forestation, permanent pastures, perennial hay crops, basic soil amendments, and other items of land improvements which conserve or permanently enhance productivity.

Lender A lender is the organization making and servicing the loan or advancing and servicing the line of credit which is guaranteed under the provisions of Agency regulations. The lender is also the party requesting a guarantee.

Lender's Agreement A lender's agreement is the appropriate Agency form executed by the Agency and the lender setting forth the loan responsibilities of the lender and agency when the Loan Guarantee is issued.

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Definitions of Terms Used in This Handbook (Continued)

Lien	A <u>lien</u> is a legally enforceable hold or claim on the property of another obtained as security for the repayment of indebtedness or an encumbrance on property to enforce payment of an obligation.
Liquidation Expenses	<u>Liquidation expenses</u> are the cost of an appraisal, environmental assessment, outside attorney fees and other costs incurred as a direct result of liquidating the security for the guaranteed loan. Liquidation fees do not include in-house expenses.
Loan/Line of Credit Agreement	A <u>loan/line of credit agreement</u> is a document which contains certain lender and borrower agreements, conditions, limitations, and responsibilities in a process of credit extension and acceptance in a loan format where loan principal balance may fluctuate throughout the term of the document.
Loan Applicant	A <u>loan applicant</u> is the party applying to a lender for a guaranteed loan or line of credit.
Loan Transaction	A <u>loan transaction</u> is any loan approval or servicing action.
Loss Claim	A <u>loss claim</u> is a request made to the Agency by a lender to receive a reimbursement based on a percentage of the lender's loss on a loan covered by an Agency guarantee.
Loss Rate	The <u>loss rate</u> is the net amount of guaranteed OL, FO, and SW loss claims paid on loans made in the past 7 years divided by the total loan amount of OL, FO, and SW made in the past 7 years.
Major Deficiency	<u>Major deficiency</u> is a deficiency that directly affects the soundness of the loan.

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Definitions of Terms Used in This Handbook (Continued)

Majority Interest	<u>Majority interest</u> is any individual or a combination of individuals owning more than a 50 percent interest in a cooperative, corporation, joint operation, or partnership.
Market Placement Program	A <u>market placement program</u> is a program designed to place direct loan applications that are eligible for a loan guarantee with commercial lenders participating in, or eligible for, the guaranteed loan program.
Market Value	<u>Market value</u> is the amount that an informed and willing buyer would pay an informed and willing, but not forced, seller in a completely voluntary sale.
Minor Deficiency	A <u>minor deficiency</u> is a deficiency that violates Agency regulations, but does not affect the soundness of a loan.
Mortgage	A <u>mortgage</u> is an instrument giving the lender a security interest or lien on real or personal property of any kind.
Negligent Servicing	<u>Negligent servicing</u> is the failure to perform those services which would be considered normal industry standards of loan management or failure to comply with any servicing requirement of this subpart or the lenders agreement or the guarantee. The term includes the concept of a failure to act or failure to act timely consistent with actions of a reasonable lender in loan making, servicing, and collection.

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Definitions of Terms Used in This Handbook (Continued)

Net Recovery Value Net recovery value is the market value of the security property assuming that it will be acquired by the lender, and sold for its highest and best use, less the lender's costs of property acquisition, retention, maintenance, and liquidation.

Nonessential Assets Nonessential assets are assets in which the borrower has an ownership interest that do not contribute an income to pay essential family living expenses or maintain a sound farming operation, and are not exempt from judgment creditors.

Normal Income Security Normal income security is all security not considered basic security.

Partial Release Partial release is the release of a portion of the security used as collateral for a loan, usually accomplished by the sale of the property.

Participation Participation is a loan arrangement where a primary or lead lender is typically the lender of record but the loan funds may be provided by one or more other lenders due to loan size or other factors. Typically, participating lenders share in the interest income or profit on the loan based on the relative amount of the loan funds provided after deducting the servicing fees of the primary or lead lender.

Partnership Partnership is any entity consisting of two or more individuals who have agreed to operate a farm as one business unit. The entity must be recognized as a partnership by the laws of the State in which the entity will operate and be authorized to own both real estate and personal property and to incur debts in its own name.

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Present Value Present value is the present worth of a future stream of payments discounted to the current date.

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Definitions of Terms Used in This Handbook (Continued)

Primary Security	<u>Primary security</u> is the minimum amount of collateral needed to fully secure a proposed loan.
Principals of Borrowers	<u>Principals of borrowers</u> includes owners, officers, directors, entities and others directly involved in the operation and management of a business.
Protective Advances	<p><u>Protective advances</u> are advances made by a lender to protect or preserve the collateral itself from loss or deterioration. Protective advances include but are not limited to:</p> <ul style="list-style-type: none"> C payment of delinquent taxes C annual assessments C ground rents C hazard insurance premiums against or affecting the collateral C harvesting costs C other expenses needed for emergency measures to protect the collateral.
Purchase Money Interest	<u>Purchase money interest</u> is a component of UCC dealing with security and lien position. A lender providing for a crop or a particular piece of equipment can frequently have first position on that item despite other financing statements in place.
Reamortization	<u>Reamortization</u> is to rewrite the rates or terms of a loan made for real estate purposes.
Recapture	<u>Recapture</u> is the amount that a guaranteed lender is entitled to recover from a guaranteed loan borrower in consideration for writing down a portion of their guaranteed loan debt when that loan was secured by real estate and that real estate increases in value. Also, the act of collecting shared appreciation.
Related by Blood or Marriage	<u>Related by blood or marriage</u> means individuals who are connected to one another as husband, wife, parent, child, brother, or sister.

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Definitions of Terms Used in This Handbook (Continued)

Relative	<p>A <u>relative</u> is an individual or spouse and anyone having the following relationship to either:</p> <table> <tr> <td>C parents</td><td>C half sister</td></tr> <tr> <td>C son</td><td>C uncle</td></tr> <tr> <td>C daughter</td><td>C aunt</td></tr> <tr> <td>C sibling</td><td>C nephew</td></tr> <tr> <td>C stepparent</td><td>C niece</td></tr> <tr> <td>C stepson</td><td>C grandparent</td></tr> <tr> <td>C stepdaughter</td><td>C granddaughter</td></tr> <tr> <td>C stepbrother</td><td>C grandson</td></tr> <tr> <td>C stepsister</td><td>C spouses of the foregoing.</td></tr> <tr> <td>C half brother</td><td></td></tr> </table>	C parents	C half sister	C son	C uncle	C daughter	C aunt	C sibling	C nephew	C stepparent	C niece	C stepson	C grandparent	C stepdaughter	C granddaughter	C stepbrother	C grandson	C stepsister	C spouses of the foregoing.	C half brother	
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C stepdaughter	C granddaughter																				
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C stepsister	C spouses of the foregoing.																				
C half brother																					
Rescheduling	<p><u>Rescheduling</u> is to rewrite the rates or terms of a single note or line of credit agreement.</p>																				
Restructuring	<p><u>Restructuring</u> is the changing terms of a debt through either a rescheduling, deferral, or writedown or a combination thereof.</p>																				
Security	<p><u>Security</u> is property of any kind subject to a real or personal property lien. Any reference to “collateral” or “security property” shall be considered a reference to the term “security.”</p>																				
Shared Appreciation Agreement	<p>A <u>shared appreciation agreement</u> is an agreement between a guaranteed lender and borrower that requires a borrower that has received a write down on a guaranteed loan secured by real estate to repay the lender all or some of the writedown received, based on a percentage of any increase in the value of that real estate at some future date, if certain conditions exist.</p>																				
Socially Disadvantaged Applicant	<p>*--A <u>socially disadvantaged applicant</u> is a loan applicant who is a member of a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as a member of a group, without regard to their individual qualities. For entity applicants, the majority interest has to be held by socially disadvantaged individuals. FSA has identified socially disadvantaged groups to--* consist only of Women, Blacks, American Indians, Alaskans Natives, Hispanics, Asians, and Pacific Islanders.</p>																				

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Definitions of Terms Used in This Handbook (Continued)

State or United States	<u>State or United States</u> is the major political subdivision of the United States and the organization of program delivery for the Agency. The United States itself, each of the several States, the Commonwealth of Puerto Rico, the Virgin Islands of the United States, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.
State Beginning Farmer Program	A <u>State beginning farmer program</u> is any program that is carried out by, or under contract to, a State and designed to assist persons in obtaining the financial assistance necessary to establish a new or maintain a recently established farming or ranching operation.
Subordination	<u>Subordination</u> is a document executed by a lender to relinquish the priority of their lien, in favor of another lender that provides that lender with a superior lien position to secure a debt with the same collateral.
Subsequent Loans	<u>Subsequent loans</u> are any loans processed by the FSA Finance Office after an initial loan has been made to the same borrower.
Transfer and Assumption	<u>Transfer and assumption</u> is the conveyance by a debtor to an assuming party of the assets, collateral, and liabilities of a loan in return for the assuming party's binding promise to pay the debt outstanding.
Typical Plan	<u>Typical plan</u> is a projected income and expense statement listing all anticipated cash flows for a typical 12-month production cycle; including all farm and nonfarm income and all expenses (including debt service) to be incurred by the borrower during such period.
--Typical Cash Flow Budget	A <u>typical cash flow budget</u> is a cash flow budget that reflects the cash inflows and outflows the operation will likely incur during a normal production cycle.--
Unaccounted for Security	<u>Unaccounted for security</u> is items, as indicated on the lender's loan application, request for guarantee, or any interim agreements provided to the Agency, that are security for the guaranteed loan that were misplaced, stolen, sold, or otherwise missing, where replacement security was not obtained or the proceeds from their sale have not been applied to the loan.
Veteran	A <u>veteran</u> is any person who served in the military, naval, or air service during any war as defined in 38 U.S.C. 101(12).
